



# The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

OUR real estate activity index, shown on pages 358 and 359 in this report, continues to hold the center of the scene as the most important factor to watch at the present time. The figure for June shows that real estate activity in the United States averaged 9.2% below our long-term computed normal. So far, this index appears to be confirming the suggestion made in April, that the real estate boom was over and that the period of readjustment had started. In the April Trends Bulletin it was pointed out that during the past 100 years, during which time there have been six real estate booms, in only one case after real estate activity fell below normal did it bounce back above the normal line, and after each of the other periods it stayed below the normal line for a period which varied from  $6\frac{1}{2}$  to  $11\frac{1}{2}$  years.

We sincerely hope that we are not following the pattern of the past, and that the readjustment period will be minor and short-lived. So far, however, the charted figures seem to be following a typical pattern.

Mortgage activity has been dropping consistently for the last 2 years, and this is frequently given as the reason for the decline in real estate activity. However, the chart on pages 358 and 359 will show that when real estate activity fell below the normal line after the big boom of the 1920's, mortgage activity had been dropping for 4 years.

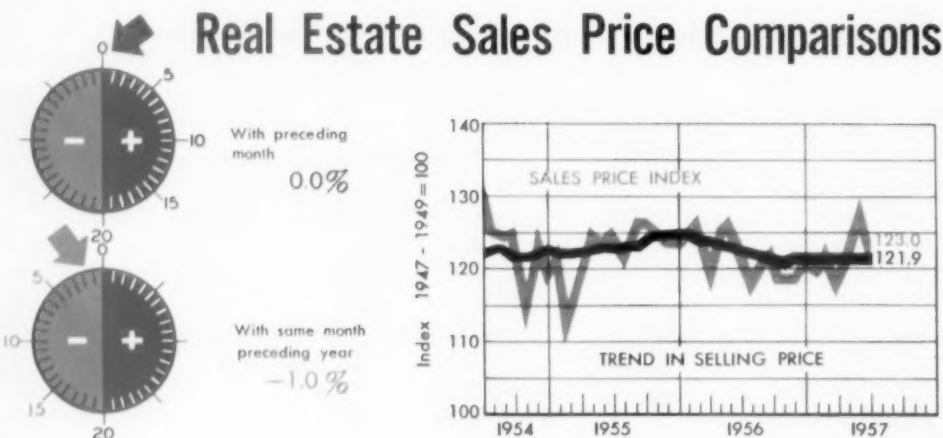
Others would say that the fall in real estate activity is due to the fact that fewer new buildings are being completed and put on the market, and the drop in the sale of new construction is responsible for the decline in real estate activity. Again the number of new dwelling units had been decreasing for 4 years during the real estate boom of the 1920's before real estate activity dropped below normal.

The one index which seems to be differing materially from the way it went in the 1920's is the foreclosure index. Foreclosures started rising in 1926 and had risen for 4 years prior to the dropping of activity below the normal line. So far, there have been only microscopic rises in foreclosures. This line has dragged along the bottom of our chart for more than a score of years. This is encouraging as it looks as if the amortized mortgage may lessen very materially the severity of any readjustment period which might be ahead. At the end of the boom of the 1920's, 3- and 5-year mortgages became due in periods of tight money,

many of which could not be renewed. This contributed very materially to the heavy foreclosures that followed. Now it is unnecessary for many mortgages to be renewed, and the favorable terms under which they were originally made can be continued until the entire mortgage is amortized. One of the great contributing factors to the severity of the real estate readjustment in the 1930's was the heavy foreclosures, throwing tremendous numbers of properties on a disinterested market. Each foreclosure depressed prices still further, and brought about additional foreclosures.

Our sales price index shown below is computed on existing properties, and would indicate that there has been no change in general trend since last November. This, too, is encouraging, as the sales price index on existing residences was dropping at the end of the boom of the 1920's, halving it in a 2-year period. Anything of this sort is certainly not in prospect during the next few years.

Another encouraging factor is the trend in residential rents. In the boom of the 1920's residential rents hit the highest point in 1925. By the time that real estate activity dropped below normal they had shown consistent drops for 4 years, and these drops continued for the next 5 years. This time, residential rents are still rising, continuing a trend which started more than 10 years ago. With the



Date	Trend in selling price	Probable selling price of a house that sold for \$12,000 in 1947-49 period	Date	Trend in selling price	Probable selling price of a house that sold for \$12,000 in 1947-49 period
1947-49	100.0	\$12,000	Oct. '48	104.5	\$12,540
1913	40.1	4,812	Oct. '53	119.7	14,360
1918	34.1	4,092	Oct. '54	122.3	14,680
Mar. '29	73.9	8,868	Oct. '55	125.1	15,010
May '32	34.8	4,176	Jan. '56	125.3	15,035
Apr. '34	44.8	5,376	May '56	123.5	14,820
July '37	40.1	4,812	Oct. '56	121.9	14,630
Apr. '38	42.8	5,136	Jan. '57	121.9	14,630
Mar. '41	40.1	4,812	Feb. '57	121.9	14,630
			Mar. '57	121.9	14,630
			Apr. '57	121.9	14,630
			May '57	121.9	14,630
			June '57	121.9*	14,630*

\*Preliminary.

AVERAGE INTEREST RATE OF RECORDED MORTGAGES  
IN 12 MAJOR CITIES OF THE UNITED STATES

Jan. '54	5.187%	Jan. '56	5.105%	May '57	5.486%
Apr. '54	5.173	Apr. '56	5.157	June '57	5.505
July '54	5.089	July '56	5.141		
Oct. '54	5.092	Oct. '56	5.229		
Jan '55	5.045	Jan. '57	5.363		
Apr. '55	5.079	Feb. '57	5.478		
July '55	5.050	Mar. '57	5.459		
Oct. '55	5.055	Apr. '57	5.507		

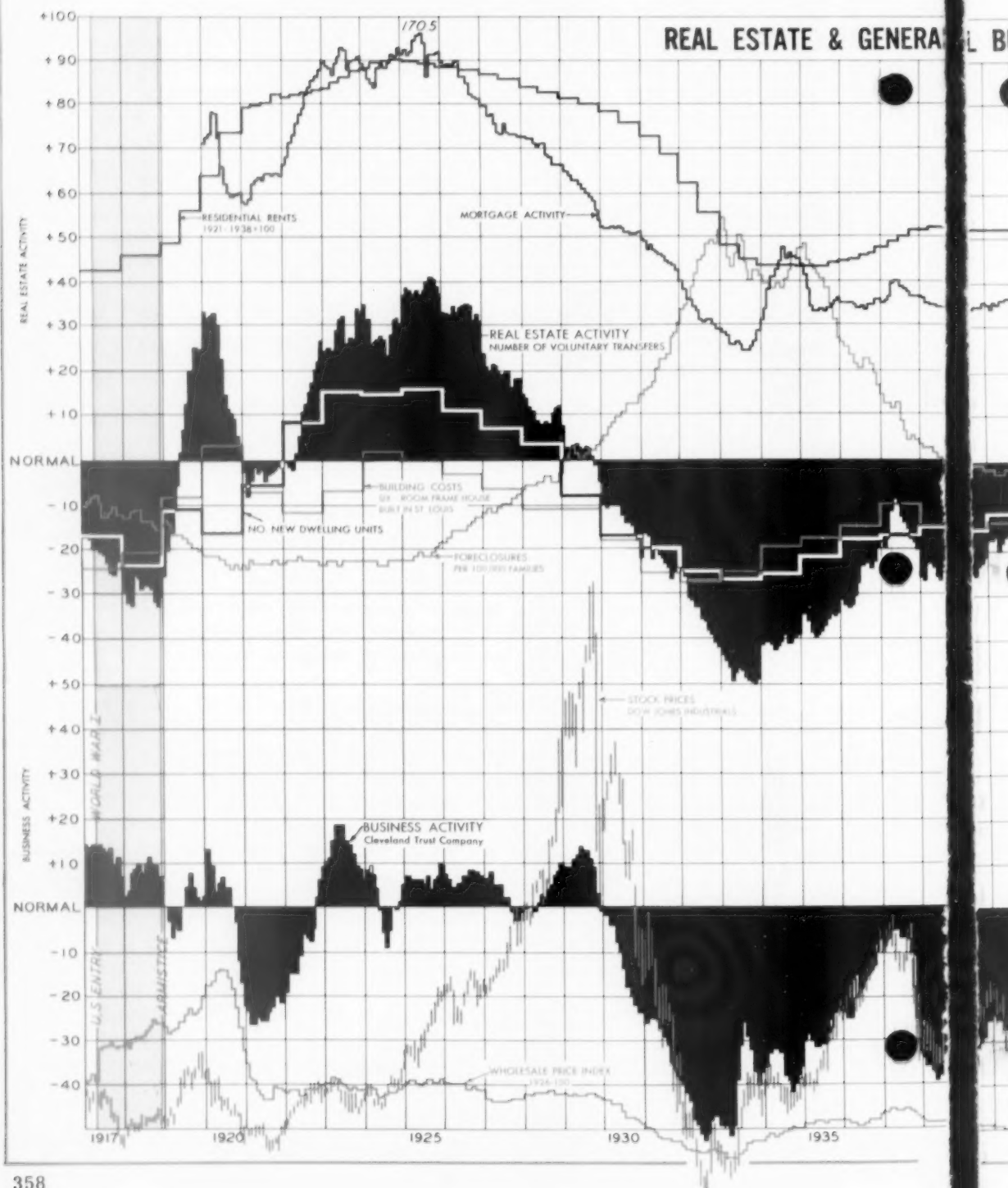
increases which are now occurring in the number of persons of marriageable age it does not seem possible that this index could drop in the foreseeable future. It seems to us that it will continue to creep up.

The table above shows the average interest rate of recorded mortgages in 12 major cities of the United States. It seems encouraging that since April there has been no upward movement, but it is too soon to say that the rise has more than hesitated. We cannot see any great change in the mortgage interest picture during the remainder of 1957, as it seems to us that mortgage money will be tight during the entire year. This will continue to adversely affect new building. We still think that the forecast we made at the beginning of the year, that we would build something better than 900,000 dwelling units in 1957, holds good. We think that some of the forecasts currently being made of less than 900,000 are too pessimistic, and we certainly believe that those forecasters who have persisted in forecasts of 1,100,000 dwelling units for the year will be badly mistaken.

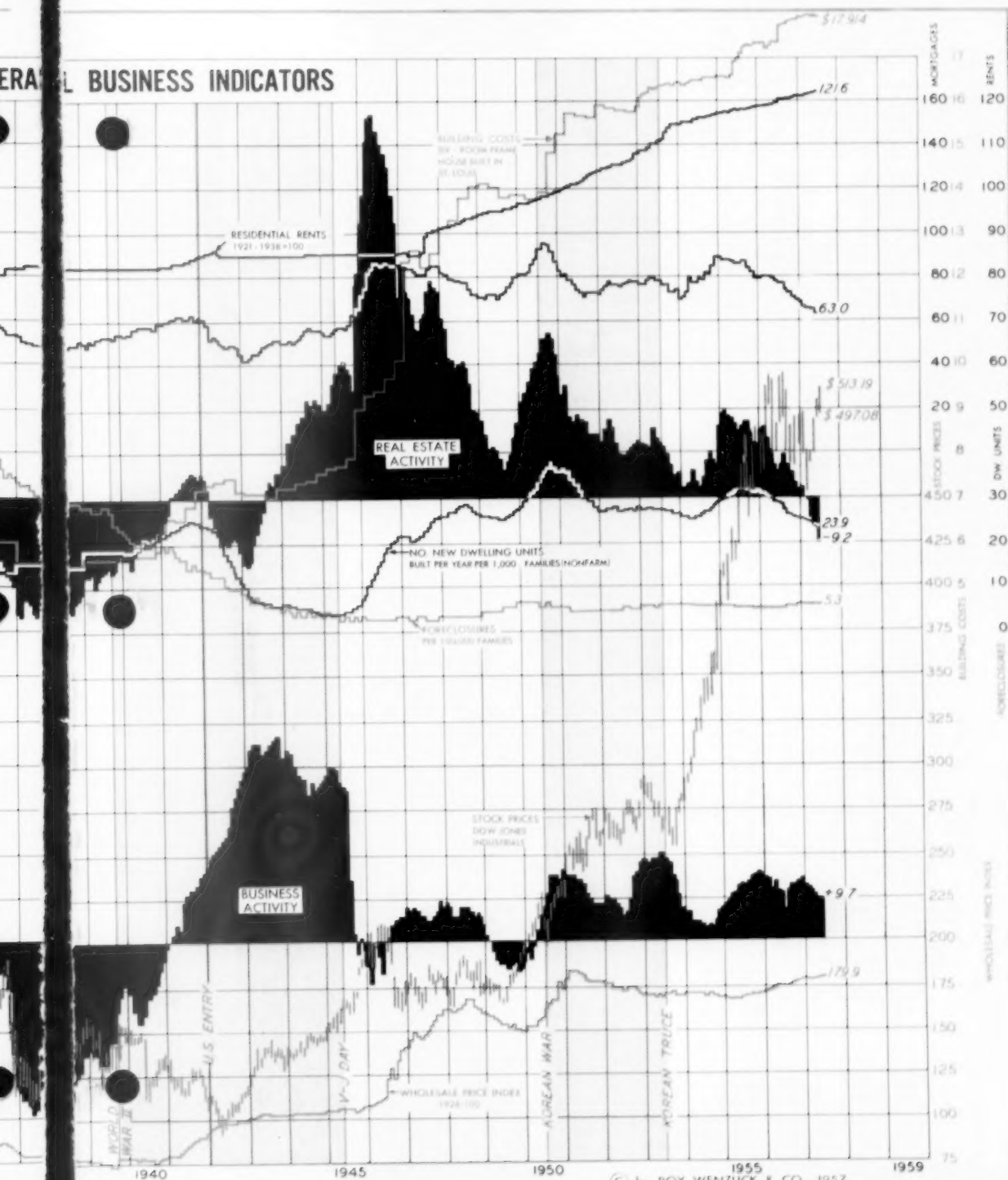
The chart and table on pages 360 and 361 show life insurance companies as mortgagees from 1916 to the present. The chart and table are based on the records of 60 of the largest companies in the United States having almost \$30 billion worth of real estate mortgages at the present time. Their mortgage portfolios have been increasing since 1936, with a minor interruption in the middle 1940's. In 1946 these companies had the smallest percentage of their assets in real estate, at 13.9%. This percentage has constantly increased, until in 1956 it averaged 33.7%.

The table at the bottom of page 361 shows that a large part of the increase in mortgage holdings was financed by the sale of Government bonds. In 1946 these companies had approximately \$20.5 billion in Governments, which constituted 45.5% of their assets. By 1956, their Government bond holdings had declined to \$6.5 billion, or 7.5% of their assets. We doubt whether the insurance companies will decrease their Government bond account very much further, which means that additions to the mortgage holdings must come largely from increases in total assets.

(cont. on page 362)

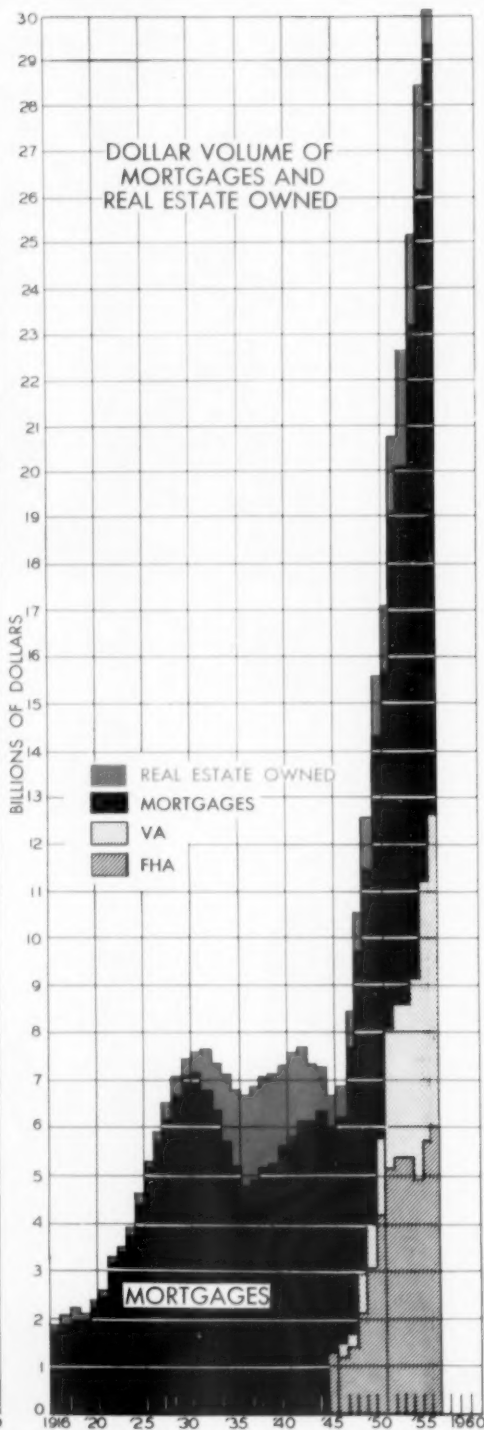
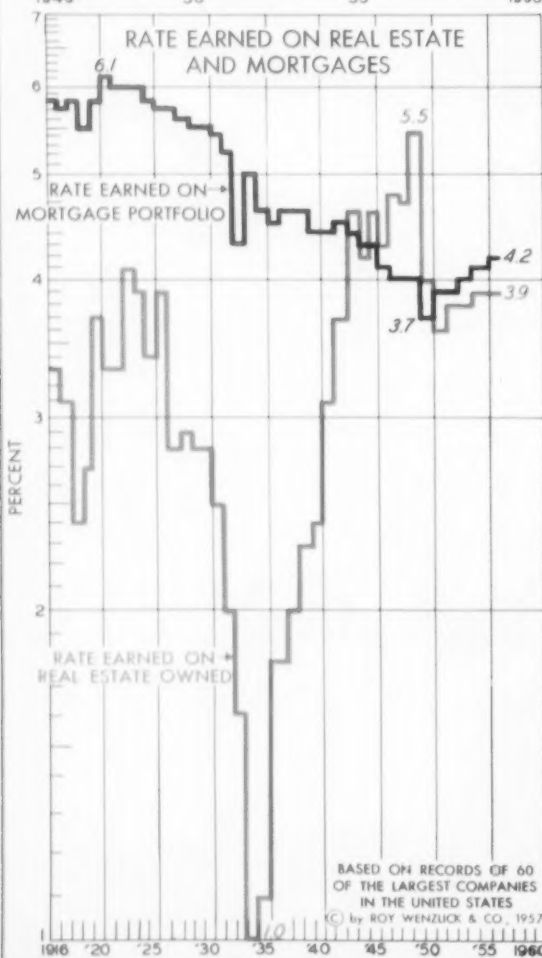
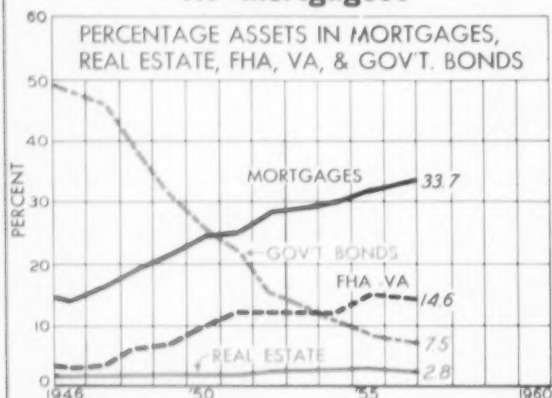


# GENERAL BUSINESS INDICATORS



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# Life Insurance Companies As Mortgagees



# LIFE COMPANIES' MORTGAGE EARNINGS

REAL ESTATE OWNED*				REAL ESTATE MORTGAGES			GROSS ASSETS
Year	Amount	% of Assets	Rate Earned	Amount	% of Assets	Rate Earned	Amount
1912	\$ 146,166,000	3.5	3.3	\$ 1,379,939,000	33.3	5.5	\$ 4,149,226,000
1913	121,937,000	2.8	2.9	1,499,309,000	34.2	5.5	4,383,429,000
1914	138,325,000	3.0	3.3	1,581,708,000	34.1	5.6	4,643,300,000
1915	137,311,000	2.8	3.1	1,645,885,000	33.8	5.7	4,874,996,000
1916	138,345,000	2.6	3.3	1,744,232,000	33.1	5.8	5,263,263,000
1917	150,396,000	2.7	3.1	1,863,292,000	33.3	5.7	5,595,618,000
1918	149,766,000	2.5	2.4	1,903,820,000	31.4	5.8	6,064,021,000
1919	135,409,000	2.1	2.7	1,909,279,000	30.1	5.5	6,352,990,000
1920	133,806,000	1.9	3.7	2,216,229,000	32.3	5.8	6,871,023,000
1921	144,252,000	2.0	4.3	2,420,470,000	33.5	6.1	7,229,795,000
1922	149,437,000	1.9	4.3	3,143,557,000	39.0	6.0	8,060,855,000
1923	157,922,000	1.8	4.1	3,303,878,000	37.7	6.0	8,765,533,000
1924	174,633,000	1.8	3.9	3,792,021,000	39.2	6.0	9,671,109,000
1925	189,181,000	1.8	3.4	4,359,155,000	40.7	5.8	10,705,786,000
1926	216,422,000	1.8	3.9	5,076,147,000	42.6	5.7	11,916,205,000
1927	252,857,000	1.9	2.8	5,669,244,000	42.8	5.7	13,261,266,000
1928	300,118,000	2.0	2.9	6,221,344,000	42.1	5.6	14,776,734,000
1929	344,446,000	2.1	2.8	6,752,645,000	41.7	5.5	16,205,703,000
1930	396,379,000	2.3	2.8	7,024,636,000	40.1	5.5	17,502,658,000
1931	522,291,000	2.8	2.5	7,125,832,000	38.1	5.4	18,720,503,000
1932	757,433,000	3.9	2.0	6,877,882,000	35.5	5.2	19,358,913,000
1933	1,120,377,000	5.7	1.6	6,350,391,000	32.2	4.3	19,747,417,000
1934	1,587,881,000	7.7	1.0	5,615,869,000	27.2	5.0	20,645,755,000
1935	1,773,813,000	8.1	1.1	5,074,726,000	23.1	4.6	21,998,046,000
1936	1,913,885,000	8.2	1.8	4,772,895,000	20.4	4.5	23,442,313,000
1937	1,951,971,000	7.9	1.8	4,856,604,000	19.6	4.6	24,838,002,000
1938	1,949,935,000	7.4	2.0	5,062,155,000	19.3	4.6	26,281,722,000
1939	1,915,011,000	6.8	2.3	5,272,315,000	18.7	4.6	28,134,150,000
1940	1,846,903,000	6.3	2.4	5,520,663,000	19.0	4.4	29,121,745,000
1941	1,660,668,000	5.4	3.1	5,890,776,000	19.3	4.4	30,513,433,000
1942	1,461,886,000	4.4	3.7	6,152,398,000	18.7	4.5	32,929,464,000
1943	1,181,140,000	3.2	4.6	6,129,855,000	16.7	4.4	36,783,584,000
1944	922,881,000	2.4	4.2	6,380,277,000	16.5	4.3	38,654,055,000
1945	717,500,000	1.7	4.6	5,952,461,000	14.3	4.3	41,728,006,000
1946	628,589,000	1.4	4.3	6,271,048,000	13.9	4.1	45,101,834,000
1947	756,902,000	1.5	4.8	7,678,416,000	15.5	4.0	49,490,072,000
1948	944,372,000	1.8	4.7	9,618,990,000	18.5	4.0	51,899,916,000
1949	1,121,878,000	2.0	5.5	11,457,589,000	20.7	4.0	55,428,963,000
1950	1,311,801,000	2.2	4.0	14,361,375,000	24.3	3.7	59,114,301,000
1951	1,471,960,000	2.3	3.6	15,604,016,000	24.7	3.9	63,234,623,000
1952	1,711,228,000	2.5	3.8	19,002,758,000	28.1	3.9	67,640,964,000
1953	1,801,267,000	2.5	3.8	20,811,296,000	28.9	4.0	72,128,202,000
1954	2,044,202,000	2.6	3.9	23,154,896,000	30.0	4.1	77,282,466,000
1955	2,259,165,000	2.7	3.9	26,172,635,000	31.8	4.1	82,399,207,000
1956	2,457,194,000	2.8	3.9	29,327,420,000	33.7	4.2	87,098,101,000

\*Includes home office buildings.

Year	Government Bonds	% Assets	VA	FHA	% of Assets in FHA and VA Mortgages
1945	\$19,548,581,000	46.8	-	\$1,220,831,000	2.9
1946	20,533,663,000	45.5	\$ 26,654,000	1,105,227,000	2.5
1947	18,902,492,000	38.2	201,261,000	1,364,626,000	3.2
1948	15,737,902,000	30.3	935,296,000	2,078,643,000	5.8
1949	14,288,446,000	25.8	1,012,818,000	3,003,274,000	7.2
1950	12,492,725,000	21.1	1,877,231,000	4,149,246,000	9.9
1951	10,098,467,000	16.0	2,867,850,000	4,703,058,000	12.0
1952	9,295,443,000	13.7	3,058,619,000	5,087,339,000	12.0
1953	8,850,262,000	12.3	3,233,358,000	5,390,993,000	12.0
1954	8,124,294,000	10.5	4,290,506,000	4,821,371,000	11.8
1955	7,597,493,000	9.2	5,550,554,000	5,709,514,000	13.7
1956	6,493,810,000	7.5	6,684,885,000	6,004,700,000	14.6

(cont. from page 357)

It will be noticed from the chart on page 360 that these insurance companies realized their highest return on their mortgage portfolios in 1921, when they earned 6.1%. The lowest point was reached in 1950, when the portfolios earned only 3.7%. Since that time the percentage has been increasing, until now it stands at 4.2%.

There has only been a relatively short period when the rate earned on real estate owned exceeded the rate earned on real estate mortgages, and that was from 1943 to 1949, omitting the year 1944. At the present time, real estate owned is earning 3.9% against 4.2% on mortgages.

The chart below shows office building vacancy in the United States from 1924 to the present. In the more recent period, occupancy by Government is superimposed on the vacancy line from 1941 to the present.

Office building vacancy has held relatively steady for the last 2 years at approximately 3.2%. If we subtract all Federal occupancy, it would bring this figure to 7.06%, and if we subtracted, in addition, State and local government occupancy, our figure would be approximately 8.5%. By this we are not implying that Government occupancy will show any great reduction in the next few years, but the figures are given to indicate that even in this industry, which in many ways is far removed from Government, occupancy by various governmental units still forms an important percentage of the space.

There is considerable variation in the office building vacancy in different cities of the United States. Some have relatively little vacancy, and in a few the vacancy is comparatively high. In the great majority of cases, and in the average of all cities, however, the vacancy is still low enough that there is no cause for alarm. Office building vacancy at the end of the boom of the 1920's was approximately four times as high as it is now. This, too, can be taken as one of the signs that any readjustment we might go through will be relatively slight.

